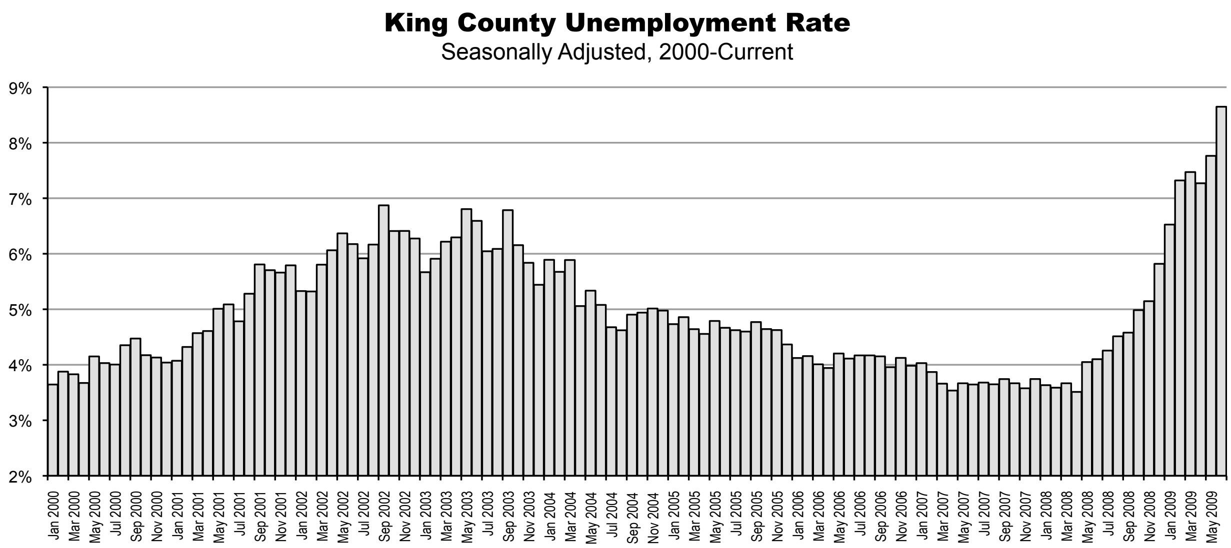
Economic and Revenue Forecast

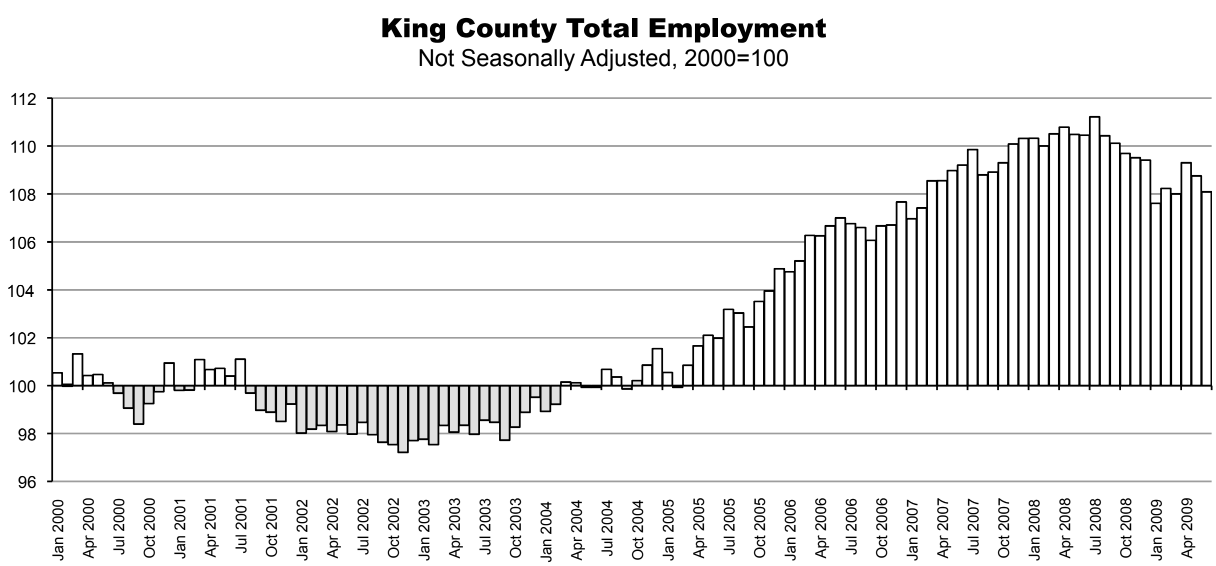
INTRODUCTION

Domestic and global financial markets remain severely depressed but are beginning to show signs of stabilization. King County lagged the nation falling into recession but was not spared the severity. Still-subdued consumer demand follows historic declines in asset and real property values and local employment.

A massive federal intervention into the economy appears to have boosted confidence of investors and businesses. Guarded lending to consumers, businesses, and among banks has resumed but at lower levels. The two-year old housing market crisis appears to be nearing an end as home prices begin to rebound but concern is heightened about the commercial real estate market, as the deep recession has crippled some businesses' ability to meet financial obligations. Seattle-based Washington Mutual is one such example and is the largest bank to have ever collapsed.

For 2010, the King County Office of Management and Budget anticipates anemic growth in both the national and regional economy. This forecast, developed by consulting local economists, published state and national forecasts, and county econometric models, is the basis for 2010 revenue and expenditure projections. Initial estimates of 2011 and 2012 revenues and expenditures are also prepared from this forecast for the out-year General Fund Financial Plan.



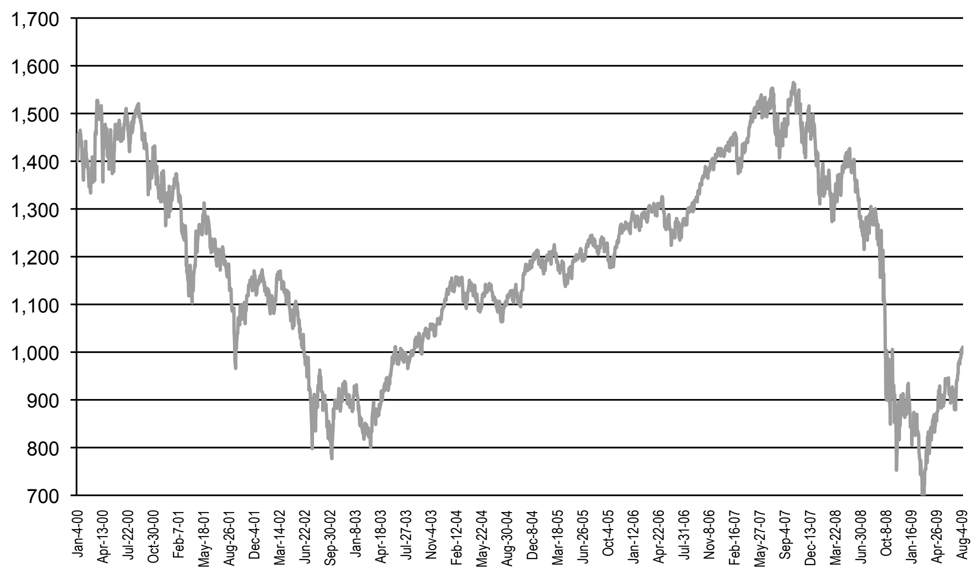


Dow Jones Industrial Average

Adjusted closing values, January 1, 2000 - August 12, 2009

Standard and Poor's 500 Index

Adjusted closing values, January 1, 2000 - August 12, 2009

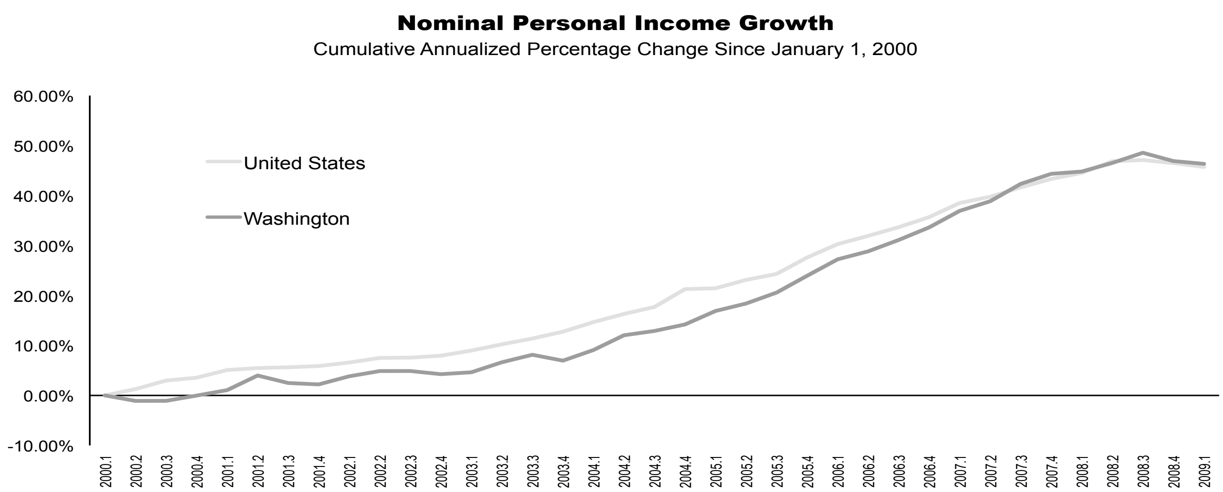


REVIEW OF ECONOMIC CONDITIONS

The nation entered one of the most severe recessions on record in December 2007. This recession has been characterized by turmoil in the value of assets, fear among consumers and lenders, and record breaking declines in employment. By late 2006, King County employment had only just returned to levels achieved prior to the previous national recession, which ended in November 2001. Locally, employment peaked in June 2008, lagging the nation as whole by seven months, and began a gradual decline. Large job losses in late 2008 and early 2009 pulled the region into the recession that the rest of the country was already enduring, and resulted in an unemployment rate double that of a year prior (8.5 percent versus 4.1 percent). Local employment growth experienced over the previous five years has been completely reversed. The previous peak annual unemployment experienced in King County was 6.2 percent in 2003, the highest rate seen since 1986.

The decline in the rate of unemployment through 2007 was driven less by job growth than by the relative decline in the total labor force – the proportion of the population seeking or holding jobs. The labor force participation rate during 2004-2007 was a full percentage point lower than in 2000. Recent increases in the unemployment rate have been muted by a further decline in the labor force participation rate. In November 2008, labor force participation fell to 65.8 percent, falling again to 65.5 percent in January 2009 where it remains. This is the lowest level in over 20 years. Labor markets continue to contract. Over the previous 12 months, an average of 486,000 jobs have been lost each month. Over 6.9 million jobs have been shed since employment peaked in December 2007.[1]

Employment growth between 2004 and 2008 was dramatic in the construction, information, and healthcare industries. The peak of the economic cycle having passed, construction employment statewide at the end of the first half of 2009 fell 17.9 percent from a year earlier, and to levels not seen since 2006.[2] Difficulties remain in the real estate market, as average prices are down 12 percent from early 2008 and transaction volumes hover at levels 65 percent below 2005 levels. Pressure will remain on the construction industry.



Nationally, inflation-adjusted median household income fell 3.6 percent in 2008, the largest decline ever recorded. This follows just three years of growth and leaves real median income at the lowest level in twelve years. Real median household income peaked recently in 2007 but was 0.8 percent below peak 1999 levels.[3] Sluggish household income growth coincides with sustained productivity increases – productivity per worker hour is up over 22 percent since 2000.[4]

The broader economy struggles to return to growth. This is punctuated by four quarters of Real Gross Domestic Product (GDP) decline, the longest period of consecutive quarterly declines on record (quarterly records date back to 1947). The decline would have been worse if it were not for significant federal efforts to stimulate the economy.

Second quarter 2009 decline in GDP of 1.0 percent follows larger drops of 6.4 percent in the first quarter, 5.4 percent in the forth quarter 2008, and 2.7 percent in the third quarter 2008. The 1.5 percent GDP growth experienced in the second quarter 2008 was short-lived, reversing the decline of 0.7 percent in the first quarter 2008. The first quarter of 2008 was the first negative real GDP growth experienced since the 2001 recession. Outright decreases in residential investment over the past fourteen consecutive quarters have negatively impacted GDP; residential investment is down 57 percent from the last quarter of 2005 in real dollars. Residential construction and sales of both new and existing homes have declined dramatically from the peak of 2004-2005. Uncertainty shrouds the real estate market as the fall of home prices is stemmed, but lending standards are tightened and federal incentive programs expire.

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1 US Department of Labor, Bureau of Labor Statistics.

2 Washington Department of Labor and Industries, Labor Market and Economic Analysis.

3 US Department of Commerce, Bureau of the Census.

4 US Department of Labor, Bureau of Labor Statistics.

Imports have fallen to 2003 levels while exports have declined to 2006 levels, resulting in an improvement (although still negative) in net exports and a level not seen since 1999. A weakening dollar in previous quarters had helped to boost exports and restrained import growth, but global economic slowing has resulted in outright declines in both exports and imports. All major categories of private domestic investment have declined for four consecutive quarters reflecting the credit crunch, the drop in home sales, and weakened business and consumer confidence. This represents the largest four-quarter detraction from Gross Domestic Product growth since 1975. Automobile and durable good purchases have shown substantial weakness recently, declining in five of the previous six quarters. This previously had only occurred once in the history of the index, in 1957-58.

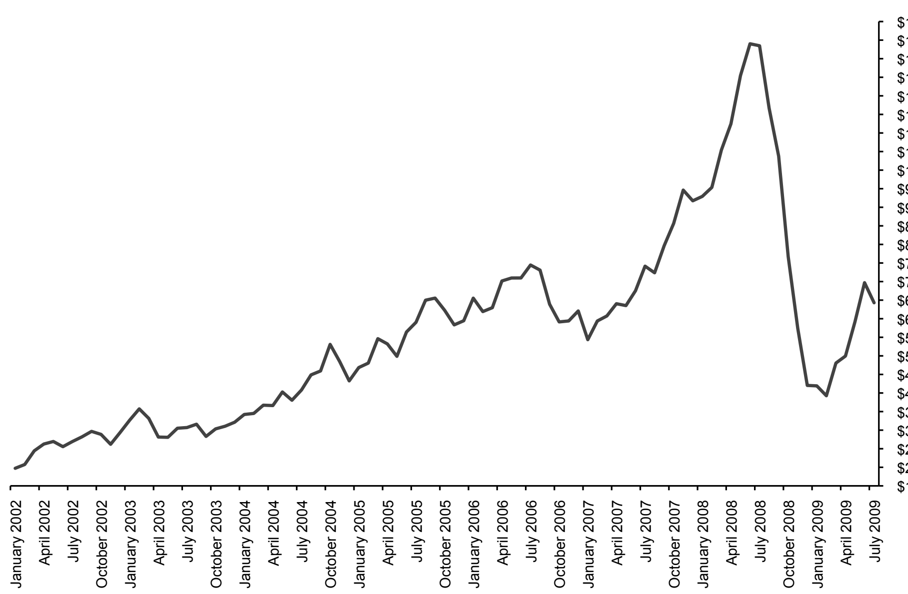
Another threat to the economy lies in energy prices. After peaking at roughly $145 per barrel in July 2008, having doubled from a year earlier, oil prices eased significantly as economic growth faltered. Declining to $34 per barrel in mid-February 2009, a 77 percent reduction over two months, trading in light, sweet crude oil, a highly volatile commodity, is indicative of unprecedented uncertainty – even by energy market standards. Punctuating investor insecurity, in response to market turmoil and the reversal of significant short positions, the price of one-month forward crude shot up $25 in late September 2008 intraday trading, closing up $16, the largest spike in crude oil futures ever experienced on the New York Mercantile Exchange. A slow economy has provided some relief to energy price pressures, but the variability and volatility in the energy market in recent history leaves little forecasting confidence. Since bottoming out earlier this year, prices have more than doubled to $70 per barrel. Any production disturbance – both perceived or realized – will clearly influence a hypersensitive market. The fundamental problem, however, is one of demand, as oil consumption expands in developing countries, especially China.

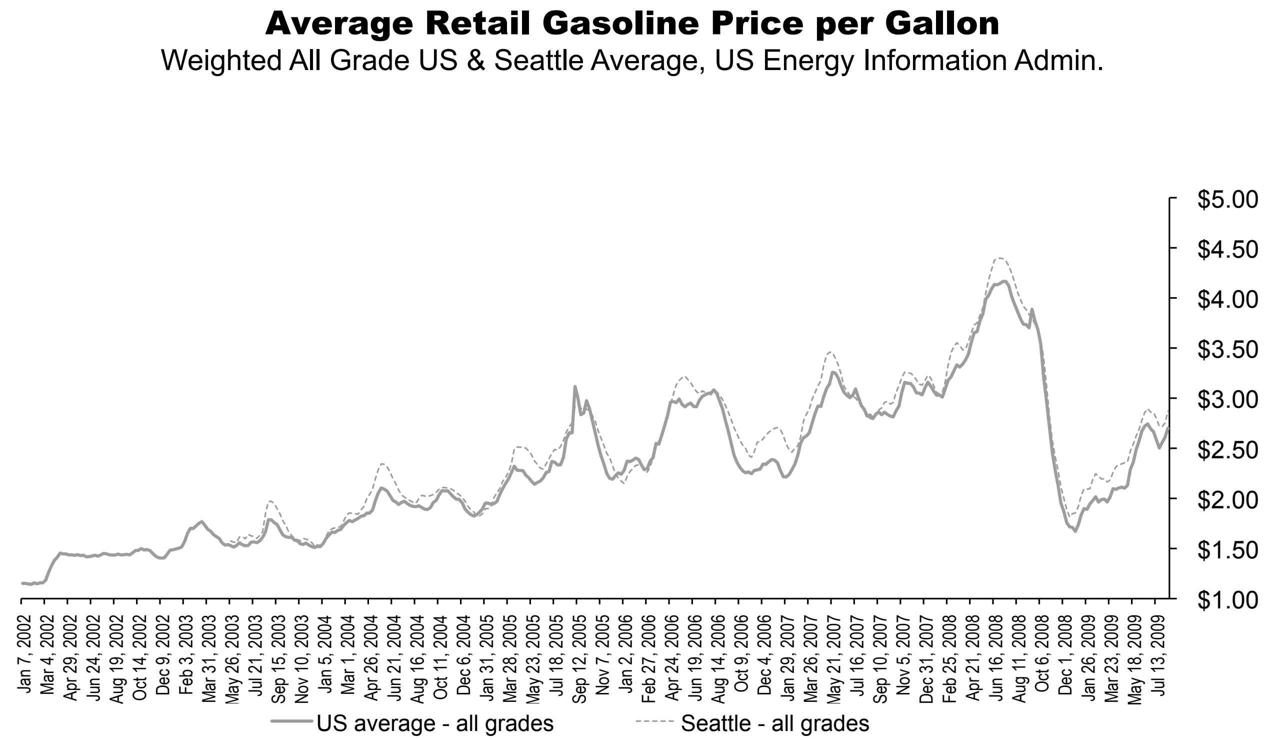
The impact of rising crude oil prices is quicker to show up in retail gasoline prices than declines in crude oil prices, but the trend is the same. There continues to be a premium associated with limited refinery capacity, highlighted by 2005 disruptions from gulf coast storms Rita and Katrina and 2008 refinery incapacitation caused by Hurricanes Gustav and Ike. The National Oceanic and Atmospheric Administration indicates that the 2009 hurricane season (June through November) is likely to be less severe than typical, one of few signs of stability in a market otherwise filled with turmoil.

Highly inelastic demand for oil requires substantial price increases to bring the market into equilibrium, which has in turn emboldened speculators. However, the economy has yet to sustain prices exceeding $100 per barrel although energy market fundamentals will continue to test this threshold. In the long run,

Light, Sweet, Crude Oil Price

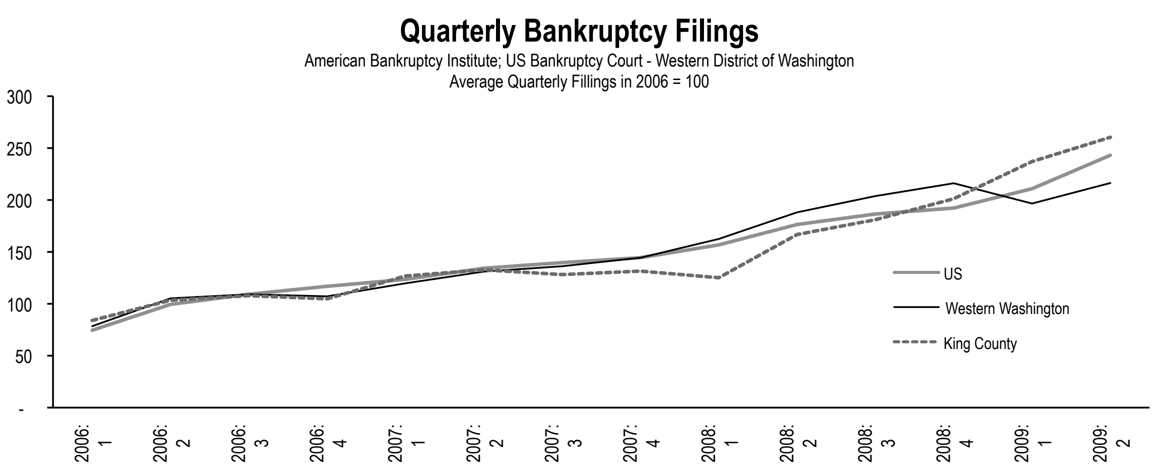
New York Mercantile Exchange, Initial Price on Subsequent Month Delivery





insufficient income growth and high consumer debt levels present a much larger danger to the economy than even another $40 per barrel surge in oil prices.

Locally, total passenger traffic at Seattle-Tacoma International Airport dropped 6.4 percent between 2000 and 2002, following the impact of the September 11th terrorist attacks. Traffic through 2008 had completely rebounded, up 31.3 percent over six years. After the first seven months of 2009, traffic is running 4.8 percent behind 2008 levels for the same period.[5] Hotel occupancy rates, buoyed by a resumption of convention activity and burgeoning cruise ship bookings, peaked in 2007 at over 70 percent. Vacancy rates increased somewhat in 2008, mostly in the fourth quarter, in response to spikes in fuel prices and rising unemployment.

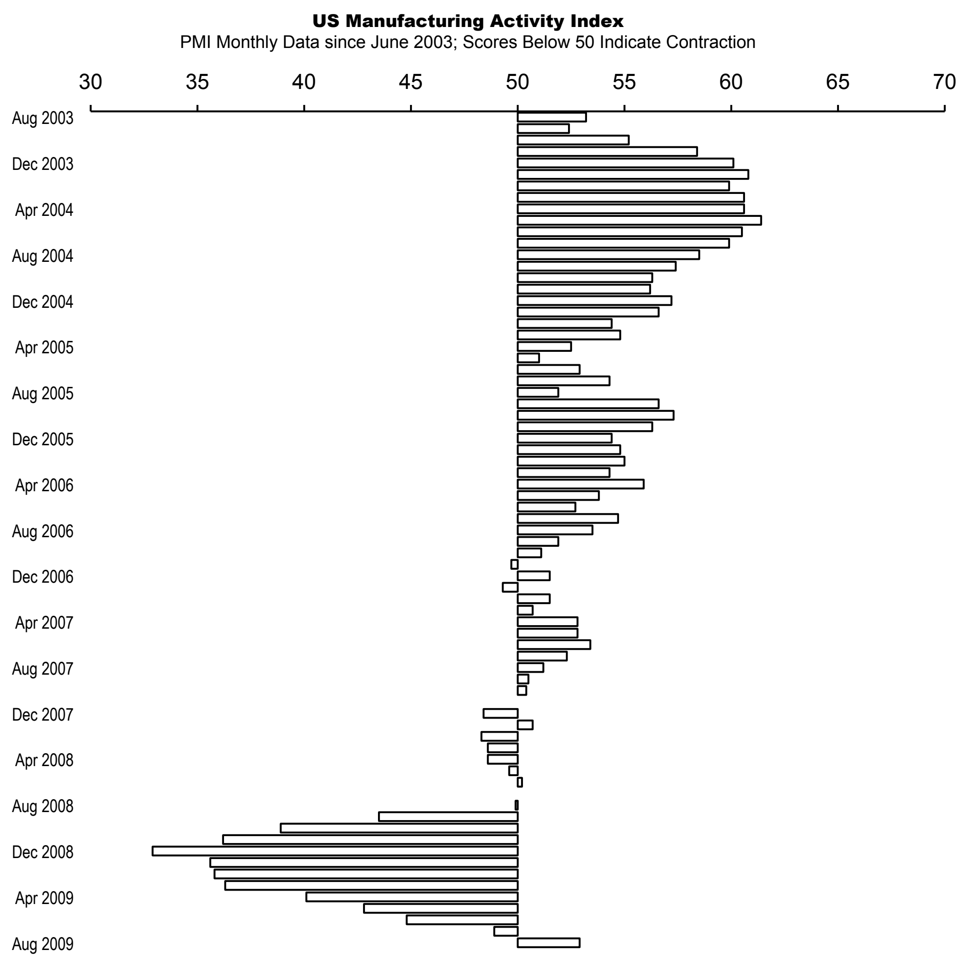


On an individual level, King County real per capita personal income experienced declines in 2001-2003, followed by growth between 2003-2007; 2007 real per capita income was a full 10.4 percent above the 2000 peak. Between 2002 and 2005, bankruptcy filings in Western Washington increased by 60 percent, although the surge at the end of 2005 is explained largely by bankruptcy law changes enacted by Congress. King County experienced a 68.5 percent increase in bankruptcy filings in 2008 compared with 2006. Through the

5 Port of Seattle, *Airport Activity Report.*

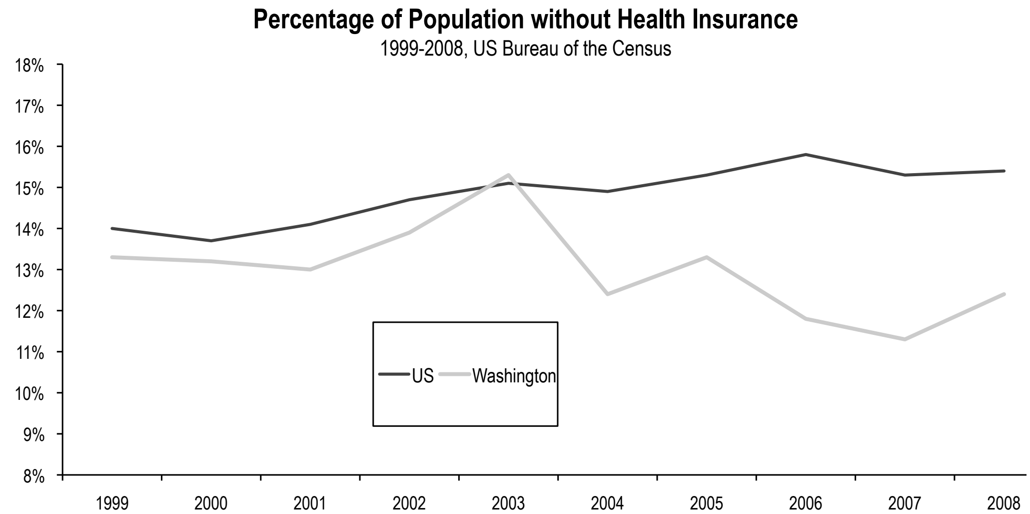
first half of the year, 2009 bankruptcy filings are up an additional 70.4 percent over the same period in 2008.[6] More broadly, the most recent data indicates that Washington's Real Per Capita Gross State Product fell 2.1 percent in 2001 and 0.7 percent in 2002. Growth during 2003-2007 averaged 1.7 percent, but only was 0.5 percent in 2008.[7]

The increase in local employment during the recent period of growth was unevenly distributed across sectors. After declining by 25 percent from 2000 to 2004, manufacturing employment rebounded and peaked in 2007 at only 9.3 percent above its recent low in 2004. These gains were nearly entirely erased by the end of 2008. Through the first six months of 2009, manufacturing employment is only 0.5 percent above levels experienced over the same time period in 2004. As a percentage of total non-farm employment, manufacturing has decreased from 11.6 percent in 2000 to 9.2 percent in 2008. The decline in the early part of the decade occurred broadly across the manufacturing sector, but the rebound between 2004 and 2008 was focused mainly in aerospace manufacturing. Aerospace manufacturing employment between 2004 and 2008 is up 20.0 percent, while all other manufacturing employment is up only 1.6 percent over these four years. Large payroll growth also occurred in construction during the four-year expansion – 2007 was up 31.0 percent over 2003. Construction employment stagnated in mid-2008, ending the year down 0.4 percent from 2007, and began to fall sharply in late-2008. Hit especially hard by the recent housing crisis, construction employment in the first half of 2009 is 16.7 percent below 2008 levels during the same period. Employment in service provision sectors represented 84.6 percent of nonfarm employment in 2008, compared with 82.8 percent in 2000. Software publishers experienced strong growth of 6.6 percent in 2007 and 7.0 percent in 2008 from prior years. Retail trade employment remained unchanged in 2007 and grew a slight 0.1 percent in 2008.



6 American Bankruptcy Institute & U.S. Bankruptcy Court – Western District of Washington.

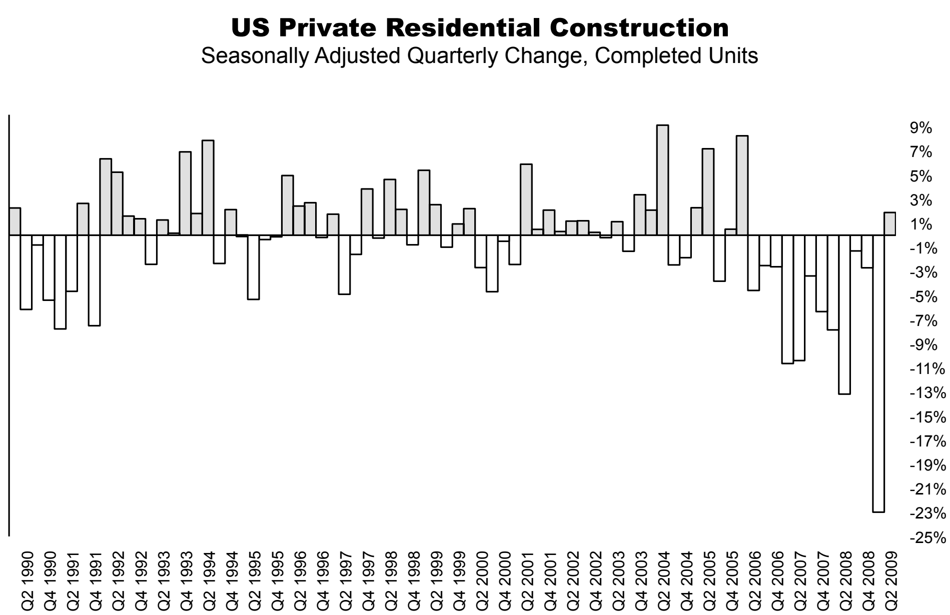
7 US Department of Commerce, Bureau of Economic Analysis.



The Bureau of the Census reports that the percentage of uninsured persons in Washington State peaked most recently in 2003 at 15.3 percent. Following the local business cycle, this rate dropped to a low of 11.3 percent in 2007, and the lowest level in the past nine years, before rising to 12.4 percent in 2008. Nationally, the number of uninsured has risen fairly steadily from a recent low in 2000 of 13.7 percent to 15.4 percent in 2008.[8] Given the spike in unemployment that occurred in late 2008 and into 2009, the number of uninsured persons is certain to climb higher in 2009.

An overextension of residential real estate activity through 2006 gave way to a collapse of the residential real estate market, continuing through early 2009 by virtually every measure – sale price, transaction volume, time on market, inventory, and number of competing offers. Sale volumes have dropped by nearly 60 percent from 2007, while median transaction prices are down between 10 and 15 percent from year-earlier levels. This dramatic fall in sales is expected to abate and then stabilize over the next few months as confidence begins to return to the market.

The local market for commercial real estate has also experienced slowing. The commercial office space vacancy rate for Seattle, now at 15.2 percent, has risen sharply from the 8.9 percent experienced a year ago. Across the region, total vacant office space has also increased to 14.2 million square feet, from 9.6 million a year ago. This compares with 12.1 million square feet in 2003.[9] Reduced demand is also reflected in flat



8 US Bureau of the Census.

9 Commercial Space Online, Inc. survey data [http://www.officespace.com] and Cushman and Wakefield.

or declining lease rates. The regional average rate per square foot of commercial office space in the second quarter of 2009 was $28.78 compared with an average of over $31 in 2008. Developer activity has declined as well - current office space under construction is 31 percent less than a year ago. Part of this decline is due to the completion of over 1.8 million square feet of projects in the second quarter of 2009.

ECONOMIC FORECAST

Confidence is beginning to return, but memories of recent turmoil will dampen a recover. Uncertainty beleaguered the economy in 2008 and 2009 - major institution failures and equity market rollercoaster rides were common. The federal government continues to manage the largest intervention in financial markets since the New Deal era, taking over mortgage giants Fannie Mae and Freddie Mac, propping up the American Investment Group (AIG) and initiating what amounts to a takeover of General Motors (GM). All major investment banks have failed, been consumed by commercial banks, or transitioned to bank-holding companies, in order to gain permanent access to Federal Reserve credit facilities at the expense of greater regulation and oversight.

In September 2008, yields on treasury bills fell to the lowest level since World War II, with annualized yield on a 3-month note reaching only 0.02 percent. The Dow Jones Industrial Average experienced the largest drop in its 102-year history, falling over 777 points as it became clear that Congress would not easily approve the largest bailout package in history. Money market funds dropped below a dollar-for-dollar valuation, “breaking the buck”. Also in September 2008 crude oil futures experienced the largest one-day increase on record and the biggest bank failure in history (Seattle-based Washington Mutual) unfolded. These events underscore the volatility experienced in late 2008.

Initially, the Federal Reserve, the Treasury, and other federal regulatory bodies were largely reactive, treating credit market seizures with large injections of liquidity, by extending credit facilities to entities unable to secure funding in markets, and by direct intervention in some large but failing institutions. Regulators then took more proactive measures, ensuring the stability of banks through forced loans and increased oversight

Economic Assumption Summary

Percentage Change from Preceding Year

	2006	2007	2008	2009	2010	2011	2012
King County							
Employment	2.9%	2.0%	1.5%	-2.5%	-1.1%	0.7%	1.2%
Nominal Personal Income	9.1%	7.4%	4.5%	1.5%	2.0%	3.8%	4.8%
Housing Permits	11.7%	17.2%	-38.5%	-57.0%	33.2%	47.8%	38.4%
Population	1.1%	1.6%	1.3%	1.2%	0.8%	0.7%	1.0%
Consumer Price Index *	3.7%	3.9%	4.2%	0.9%	2.8%	3.1%	3.5%
COLA **	4.66%	2.00%	2.49%	4.88%	2.00%	3.42%	3.20%
Washington State							
Employment	2.5%	2.5%	1.7%	-2.1%	0.2%	2.2%	1.8%
Nominal Personal Income	8.5%	8.1%	4.0%	0.1%	3.4%	5.3%	5.3%
Housing Permits	-5.6%	-5.3%	-39.0%	-50.1%	63.7%	50.3%	28.0%
United States							
Employment	1.9%	1.1%	-0.4%	-3.4%	-0.4%	1.6%	2.0%
Nominal Personal Income	7.1%	6.1%	3.8%	0.1%	2.7%	4.3%	5.1%
Housing Starts	-12.6%	-26.0%	-32.6%	-38.5%	39.9%	44.1%	19.6%
Three-month Treasury Yield	50.9%	-7.6%	-68.0%	-82.1%	156.0%	253.1%	55.0%
Consumer Price Index	1.7%	2.8%	5.4%	-1.5%	3.8%	3.6%	3.3%
Real GDP	2.9%	2.2%	1.1%	1.2%	1.9%	3.4%	3.4%

* Puget Sound region

** 90 percent of September-September Δ National CPI-W, minimum of 2.0 percent.

and transparency, including "stress tests" of all major banks. Coordinating with Congress and the White House, the $787 billion American Reinvestment and Recovery Act was passed, providing much-needed stimulus to the economy. Six months after adoption of the legislation, approximately $90 billion had been paid out nationwide, $1.6 billion of that has come to Washington State. Much of the stimulus spent thus far has supported social and health services and education.

The Federal Reserve's long campaign to increase short-term interest rates was finally suspended in 2007 after 17 consecutive quarter percentage point increases to the federal funds target rate. During this time period, however, medium- to long-term bond yields actually fell. Concern in the mortgage market ballooned amidst rising foreclosures and revelations of weak lending standards and led to a general flight from risk, pushing short-term yields down even further.

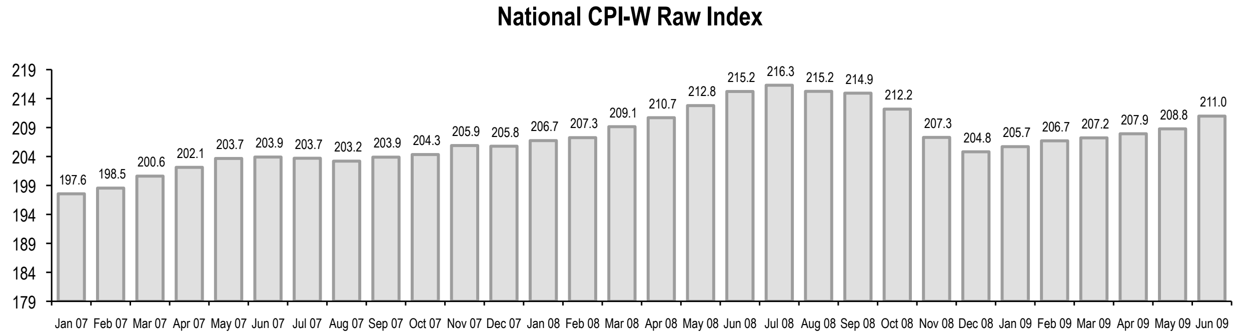
By May 2008, the Federal Open Market Committee (FOMC) had responded to the five-month old recession by lowering the federal funds rate to 200 basis points. They took action in October 2008 to address greatly diminished liquidity and plummeting economic activity, lowering the target federal funds rate by 50 basis points twice in one month. As the depth of the recession became clear, they took the unprecedented step of reducing the target federal funds rate to between 0 and 25 basis points, where it currently stands. This is the lowest publicized target rate since the FOMC began publicizing its target, two decades ago.

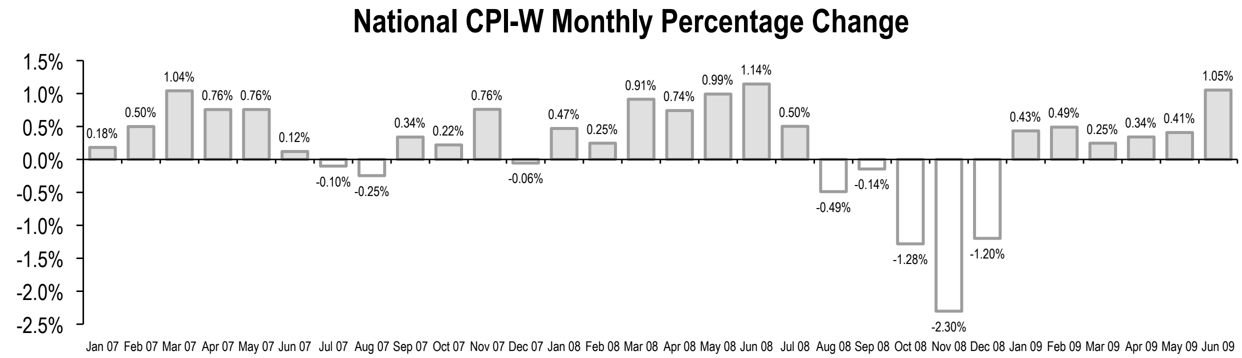
Investors continue to seek quality; treasury notes and bonds of all duration are in extremely high demand resulting in low yields. Since the financial market disruption in late 2008, yields on three-month notes have averaged only 18 basis points. As this book goes to print, yields on one-year treasury notes remain within 10 basis points of the lowest yield on record (since 1962). The duration of these low yields has caused the county's invested funds to experience diminished returns. Further drops in the rate of return are anticipated as longer-term investments acquired during a higher rate environment roll over into lower yielding holdings. The startling rise in the federal budget deficit and failure to fully address the financial turmoil may also further undermine long-term interest rates. The current interest rate environment cannot be sustained once tangible economic growth returns, as it is beginning to do. Fed action to raise the target federal funds rate will not be long in coming, at the risk of price fluctuations and a short lived spike in market activity as consumers reengage in the market.

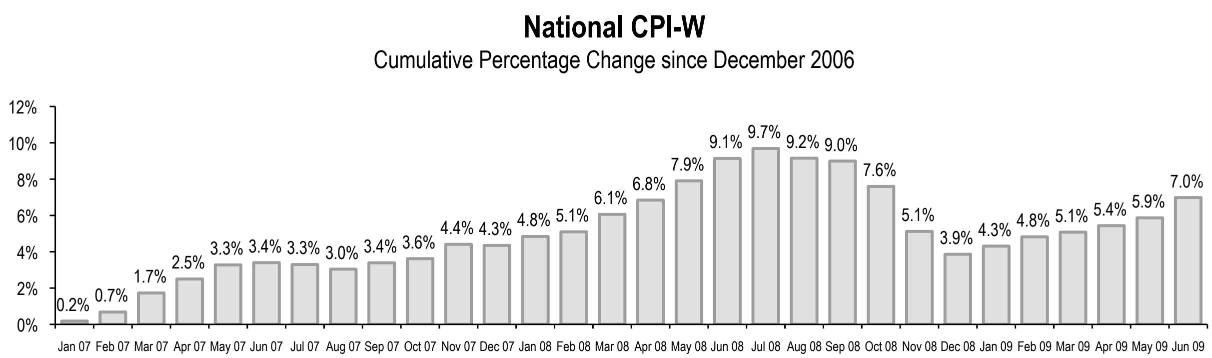
Locally, little to no growth is anticipated in 2010, characterized by muted business investment and feeble consumer demand. Residential real estate and construction, having collapsed in 2008, is positioned to stabilize by late 2009 and see some increased activity in 2010 as sidelined buyers and sellers venture back into the market, although little speculative development is anticipated in 2010. Low long-term interest rates and temporary federal programs designed to spur home purchasing will add momentum, but are unlikely to completely overcome new credit standards and caution among lenders.

Falling employment in 2009 is expected to decline further in 2010, although at a slower pace. Of the twenty largest states, Washington State recorded the third highest percentage increase in personal income between the first quarter of 2007 and the end of 2008. During first quarter 2009, Washington State personal income was only 1.1 percent greater than first quarter 2008, having declined in two of the previous four quarters. This parallels the national trend. Regional strength is likely to be muted in 2010 but stronger as employment growth returns in 2011.

After rising by over 3.6 percent in both 2000 and 2001, growth in the Puget Sound region Consumer Price Index (CPI) was just 1.9 percent and 1.7 percent in 2002 and 2003, respectively, driven by unchanged housing costs. In the first half of 2005, however, the CPI was up more than 2.4 percent, before rising another 2.6 percent in the third quarter alone due to the aftermath of Hurricanes Katrina and Rita. Even so, the CPI spike resulting from these hurricanes falls short of the 2.9 percent growth experienced in the second quarter of 2008, following a run up in energy and food prices. For the first six months of 2008, the CPI grew at the fastest rate experienced since 1982. Surges in energy prices briefly impacted broader prices before the weight of a faltering economy and a cessation of consumer activity put downward pressure on prices. The Consumer Price Index for the first half of 2009 rose only 0.5 percent above year-ago levels. Local prices remain dependent on global energy prices, as well as movement in agricultural goods, but core inflation







– excluding energy and food – in the Puget Sound region has begun to return to relatively low levels and should remain subdued for the next two to three years before consumption and resource utilization restore upward price pressure. However, unprecedented volatility experienced during the past two years results in heightened uncertainty.

The county's Cost Of Living Adjustment (COLA) for most employees is set at 90 percent of the annual growth in the Bureau of Labor Statistics' national Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), comparing the most recent two September index levels. COLA is generally limited to a minimum of 2.0 percent and a maximum of 6.0 percent. For 2010, COLA is projected to be at the floor of 2.0 percent.

KING COUNTY REVENUES

Total county revenue exceeds $4.0 billion dollars,[10] which King County distributes into over 50 separate funds. The largest funds include those for transit, wastewater, surface water management, roads, and the county General Fund. The largest revenue source is taxes, followed by charges for services; together they account for over half of all revenues. Taxes include three major property tax levies, four different sales tax assessments, and taxes on real estate transactions. Charges for services include both direct contracts, interfund payments, and other services provided by the county.

10 Interfund transfers, overhead rates, and other transactions duplicate some funds in the total revenue figure of $4.0 billion.

Taxes are the largest source of revenues to King County, accounting for an estimated 36.7 percent of total revenues (excludes 2011 revenue budgeted biennially in 2010) and 60.8 percent of General Fund revenue. The major tax sources for the county include property taxes, sales and use taxes, hotel and motel taxes, and telephone excise taxes to support the enhanced-911 system. Total King County tax revenue is projected to be $1,141.5 million in 2010, a decrease of 0.6 percent from the adopted 2009 budget. These revenues support operating expenses, debt service, and some capital projects. Property taxes are the largest single tax source for the county, with a proposed levy of approximately $619.1 million in 2010, including $100.2 million levied for Emergency Medical Services, $36.6 million of which is disbursed directly to the city of Seattle. Voters approved the current Emergency Medical Services levy in November 2007, which will expire at the end of 2013. This amount also includes $18.1 million from a newly authorized levy dedicated to the provision of transit service, implemented at 5.5 cents, 2.0 cents below the maximum allowable rate.

All King County Funds

Major Revenue Sources, 2003-2010

	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Adopted	2008 Adopted	2009 Adopted	2010 Proposed
TAXES	768,926,884	810,477,672	798,565,434	869,190,813	985,603,844	1,153,619,093	1,147,768,059	1,141,463,685
LICENSES & PERMITS	20,692,723	24,557,022	25,500,074	24,704,343	26,702,474	27,037,107	28,867,097	24,698,178
FEDERAL GRANTS-DIRECT	36,380,703	36,012,144	36,048,518	32,801,397	32,694,749	31,848,696	31,188,595	32,333,487
FEDERAL SHARED REVENUES	1,069,761	1,080,642	1,094,152	1,322,569	1,266,931	70,000	1,005,000	1,044,211
FEDERAL GRANTS-INDIRECT	87,214,090	87,876,906	85,944,129	91,823,530	118,003,160	112,666,788	119,724,093	63,670,501
STATE GRANTS	122,000,403	131,252,575	50,890,604	50,763,770	36,542,250	39,472,916	49,100,780	44,889,237
STATE SHARED REVENUES	-	14,687	-	-	144,000	118,650	121,800	90,000
STATE ENTITLEMENTS	30,932,093	35,673,353	31,754,178	33,737,995	39,053,884	39,612,863	39,343,011	39,099,670
GRANTS FROM LOCAL UNITS	1,786,320	797,178	767,704	607,755	694,584	771,482	737,714	945,932
INTERGOVERNMENTAL PAYMENT	117,013,776	140,206,810	243,734,780	253,986,750	293,905,670	331,084,219	380,649,166	410,071,892
RECOVERY ACT DIRECT/INDIRECT	-	-	-	-	-	-	-	3,530,315
CHARGES FOR SERVICES	816,623,983	800,252,718	968,997,287	888,044,394	954,700,898	1,038,188,554	1,125,662,721	1,112,897,021
FINES & FORFEITS	7,803,918	9,119,402	8,290,176	7,317,592	7,313,236	8,582,131	9,854,991	9,703,343
OTHER*	1,002,896,364	872,875,574	221,775,203	360,263,752	421,615,665	1,064,957,182	1,006,409,115	1,188,058,337
ALL FUNDS TOTAL	3,125,459,912	2,950,196,833	2,473,362,239	2,614,564,660	2,918,241,345	3,848,029,681	3,940,432,142	4,072,495,809

*Beginning in 2008, "Other" includes biennially budgeted revenue for the Public Transportation Fund.

King County General Fund

Major Revenue Sources, 2003-2010

	2003 Adopted	2004 Adopted	2005 Adopted	2006 Adopted	2007 Adopted	2008 Adopted	2009 Adopted	2010 Proposed
TAXES	301,795,404	312,327,426	328,442,601	363,316,557	378,271,605	406,717,332	381,655,649	378,807,495
LICENSES & PERMITS	5,661,661	6,046,253	7,380,384	7,545,549	7,357,349	7,152,000	9,079,938	7,021,139
FEDERAL GRANTS-DIRECT	2,361,514	1,959,555	1,893,308	1,246,695	661,587	577,664	735,103	1,158,373
FEDERAL SHARED REVENUES	50,000	60,000	60,000	60,000	65,000	70,000	70,000	147,226
FEDERAL GRANTS-INDIRECT	6,546,708	6,734,208	7,951,779	8,129,559	8,128,755	7,971,225	8,534,333	8,350,104
STATE GRANTS	1,863,402	2,653,350	2,494,140	2,629,230	1,976,093	2,047,971	2,214,974	2,172,180
STATE ENTITLEMENTS	1,424,505	1,407,505	6,559,055	6,993,579	6,979,749	7,443,249	7,459,249	7,281,155
INTERGOVERNMENTAL PAYMENT	52,269,056	56,001,858	53,164,198	55,723,169	62,753,888	66,605,911	77,654,654	80,020,123
CHARGES FOR SERVICES	89,547,761	84,746,544	89,803,336	96,915,226	103,067,890	109,733,074	120,195,603	109,167,270
FINES & FORFEITS	7,780,918	9,079,402	8,230,176	7,255,092	7,250,736	8,547,131	9,834,491	9,678,873
OTHER	19,748,081	24,275,217	15,158,635	34,725,713	41,768,208	37,203,414	23,684,522	18,782,511
GENERAL FUND TOTAL	489,049,010	505,291,318	521,137,612	584,540,369	618,280,860	654,068,971	641,118,516	622,586,449

2002-2007 adjusted to exclude sources segregated into separate funds in 2008 to enable comparison.

PROPERTY TAX

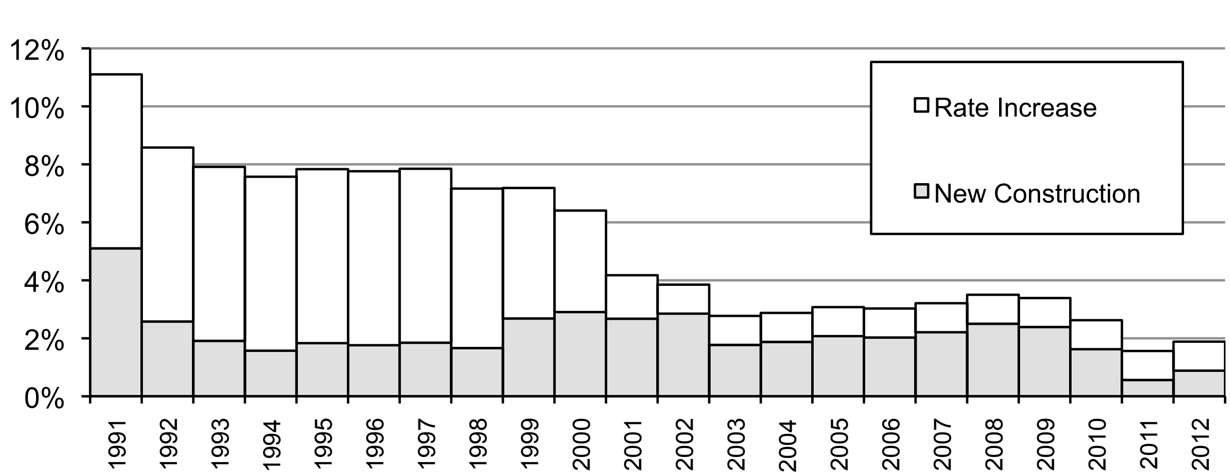
Property taxes are collected through the countywide levy, the unincorporated area levy, the emergency medical services levy, and voter approved debt. These receipts are dedicated to various funds within King County.

Since 2001, when Washington voters approved Initiative 747 (but rejected by a majority of King County voters) the regular levy has been limited to growth of only one percent annually, plus the increase in new construction. With inflation typically running two or three percent, this measure is gradually decreasing the effective tax paid by typical property owners, and reducing the dollars available for the General Fund. Notwithstanding court rulings invalidating Initiative 747 as early as 2002, King County has fully conformed with the requirements of Initiative 747 since its approval in 2001. The state legislature subsequently codified the one percent cap on growth with House Bill 2416, adopted in late 2007.

The overall countywide levy is projected to rise to $373.8 million in 2010, up from $367.9 million in 2009.[11] This amount includes an enhanced parks operating levy, which replaced an expired levy, and a parks capital levy, both of which were authorized in the August 2007 primary election. The countywide levy also includes the Automated Fingerprint Identification System lid lift of $15.6 million, which is reduced below the projected allowable limit of $18.5 million in 2010. This results in a levy rate one cent below the 5.7 cent rate authorized by voters in 2007.

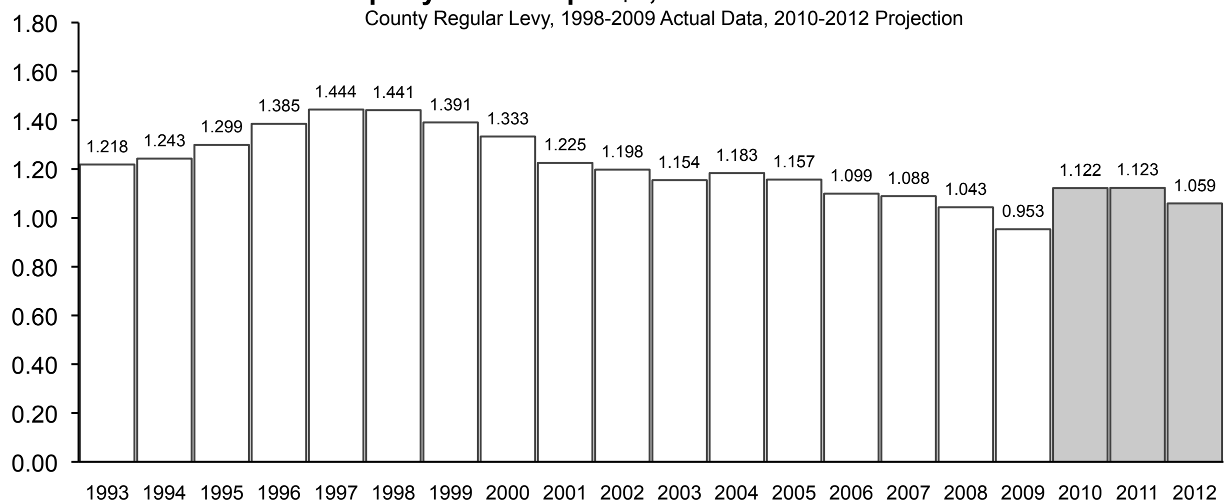
Property Tax Revenue Growth Components

General Fund Levy, 1991-2009 Actual Data, 2010-2012 Projection



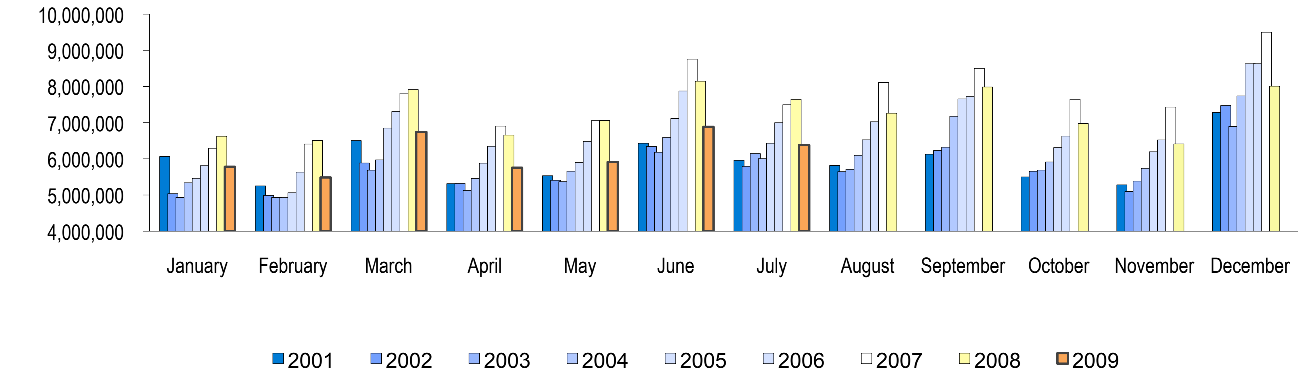
Property Tax Rate per $1,000 of Assessed Valuation

County Regular Levy, 1998-2009 Actual Data, 2010-2012 Projection



11 The countywide levy includes the undesignated General Fund and dedicated millage for mental health/developmental disabilities, human services, veterans' aid, intercounty river improvement, limited tax bond redemption, and voter approved lid-lifts.

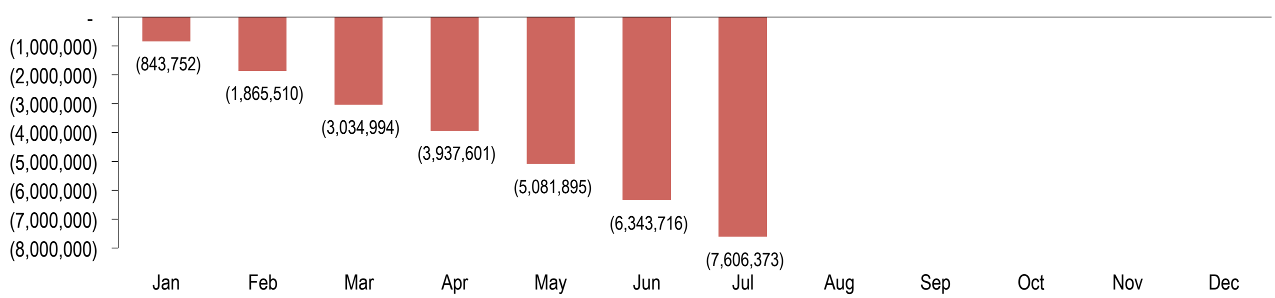
King County Monthly Sales Tax Collections - Local Option



Monthly Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2001	6,062,931	5,251,282	6,503,883	5,313,379	5,533,086	6,431,011	5,958,177	5,815,392	6,127,737	5,499,377	5,280,576	7,282,334
2002	5,036,669	4,988,719	5,884,638	5,321,370	5,407,187	6,339,046	5,792,913	5,645,463	6,228,228	5,656,303	5,096,438	7,471,553
2003	4,931,954	4,932,061	5,687,259	5,127,102	5,369,033	6,181,570	6,144,228	5,708,742	6,321,403	5,689,569	5,385,641	6,894,946
2004	5,338,022	4,928,659	5,970,150	5,454,094	5,657,854	6,592,828	6,004,537	6,096,735	7,175,660	5,912,824	5,737,184	7,738,012
2005	5,460,791	5,062,926	6,851,104	5,880,954	5,900,685	7,114,004	6,431,306	6,525,074	7,655,107	6,310,149	6,194,818	8,628,252
2006	5,810,621	5,633,087	7,305,744	6,346,432	6,481,989	7,874,877	6,998,672	7,024,854	7,719,276	6,629,777	6,521,686	8,629,028
2007	6,291,861	6,409,051	7,814,065	6,905,333	7,056,138	8,756,401	7,495,302	8,109,072	8,499,998	7,644,629	7,431,419	9,499,466
2008	6,624,910	6,506,690	7,913,422	6,657,458	7,058,239	8,146,148	7,643,692	7,261,340	7,985,310	6,976,731	6,410,987	8,008,432
2009	5,781,158	5,484,931	6,743,938	5,754,852	5,913,945	6,884,326	6,381,035					

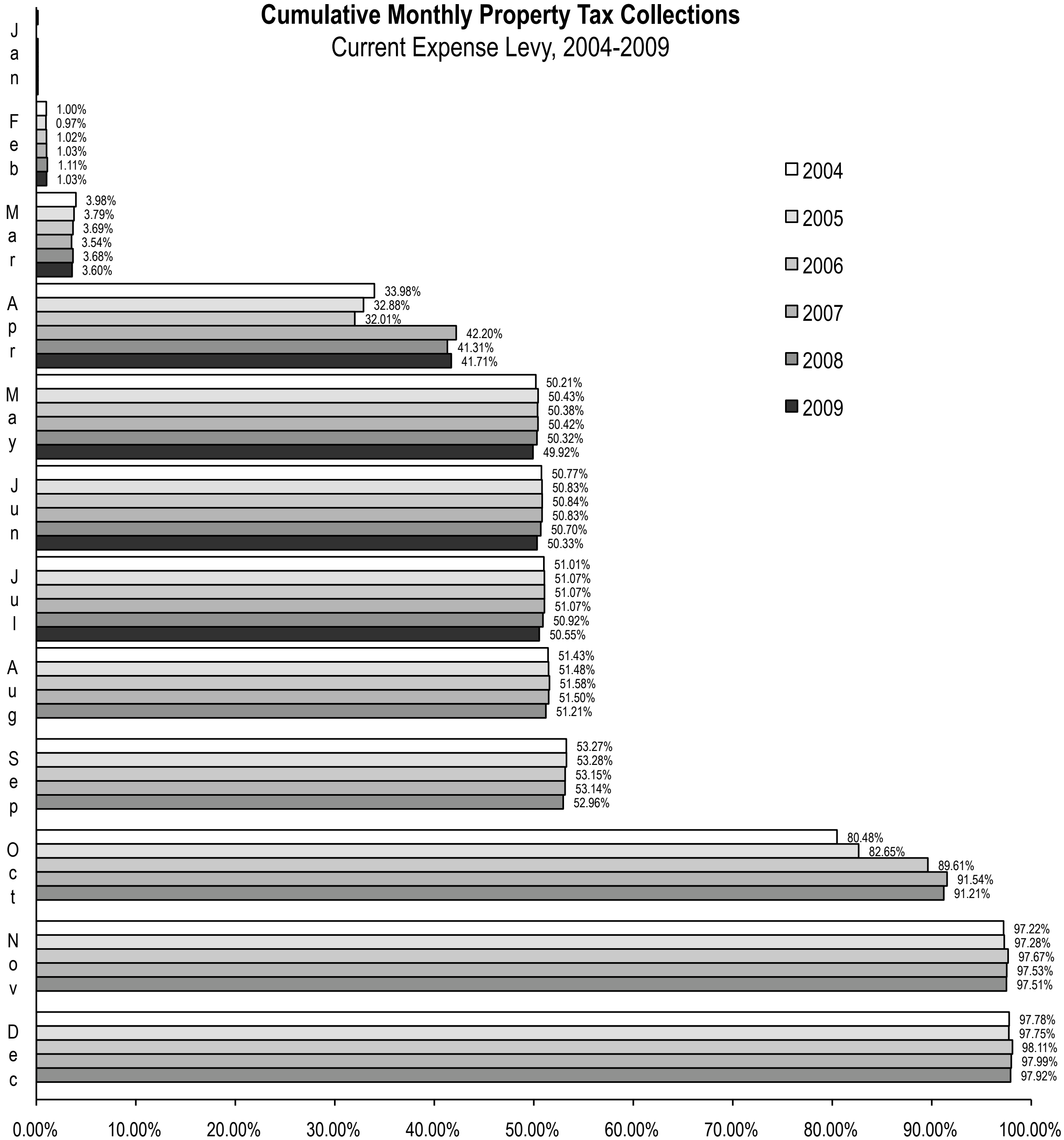
Cumulative 2009 Variance from 2008



Year-to-Date Collection Detail

	January	February	March	April	May	June	July	August	September	October	November	December
2001	6,062,931	11,314,213	17,818,096	23,131,476	28,664,562	35,095,573	41,053,750	46,869,143	52,996,879	58,496,256	63,776,832	71,059,166
2002	5,036,669	10,025,388	15,910,026	21,231,396	26,638,583	32,977,629	38,770,542	44,416,005	50,644,233	56,300,536	61,396,974	68,868,527
2003	4,931,954	9,864,015	15,551,273	20,678,376	26,047,409	32,228,980	38,373,208	44,081,950	50,403,353	56,092,922	61,478,563	68,373,509
2004	5,338,022	10,266,682	16,236,832	21,690,926	27,348,780	33,941,609	39,946,146	46,042,880	53,218,540	59,131,364	64,868,548	72,606,560
2005	5,460,791	10,523,717	17,374,821	23,255,775	29,156,460	36,270,464	42,701,770	49,226,844	56,881,951	63,192,100	69,386,917	78,015,169
2006	5,810,621	11,443,708	18,749,452	25,095,884	31,577,872	39,452,750	46,451,421	53,476,275	61,195,551	67,825,327	74,347,013	82,976,041
2007	6,291,861	12,700,912	20,514,978	27,420,310	34,476,448	43,232,849	50,728,150	58,837,222	67,337,220	74,981,849	82,413,268	91,912,734
2008	6,624,910	13,131,599	21,045,021	27,702,480	34,760,718	42,906,866	50,550,558	57,811,898	65,797,208	72,773,939	79,184,926	87,193,358
2009	5,781,158	11,266,089	18,010,027	23,764,879	29,678,824	36,563,150	42,944,185					

* Data presented are total local option sales tax collections less Department of Revenue 1 percent administration fee. 95.4 percent of county sales tax receipts are deposited in the General Fund. The remainder is dedicated to the Children and Families Set-Aside (4.6 percent). Excludes SST mitigation payments ($268K received for Q3 2008).



Cumulative Monthly Property Tax Collections
Current Expense Levy, 2004-2009
Jan
Feb
1.00%
0.97%
1.02%
1.03%
1.11%
1.03%
Mar
3.98%
3.79%
3.69%
3.54%
3.68%
3.60%
Apr
33.98%
32.88%
32.01%
42.20%
41.31%
41.71%
May
50.21%
50.43%
50.38%
50.42%
50.32%
49.92%
Jun
50.77%
50.83%
50.84%
50.83%
50.70%
50.33%
Jul
51.01%
51.07%
51.07%
51.07%
50.92%
50.55%
Aug
51.43%
51.48%
51.58%
51.50%
51.21%
Sep
53.27%
53.28%
53.15%
53.14%
52.96%
Oct
80.48%
82.65%
89.61%
91.54%
91.21%
Nov
97.22%
97.28%
97.67%
97.53%
97.51%
Dec
97.78%
97.75%
98.11%
97.99%
97.92%
2004
2005
2006
2007
2008
2009
0.00%
10.00%
20.00%
30.00%
40.00%
50.00%
60.00%
70.00%
80.00%
90.00%
100.00%

The amount remaining for unrestricted use in the General Fund is the total levy capacity less distributions for debt service, inter-county river improvement, veterans, and other designations. Unrestricted General Fund revenues from the property tax levy are estimated at $266.7 million, after undercollection. New construction of 1.62 percent accounts for the increase above 1 percent.

The unincorporated area levy (traditionally known as the roads levy) is estimated at $85.0 million for 2010.

SALES TAX

Sales taxes constitute Washington's largest revenue source, and King County's second largest source of tax receipts. A sales tax rate of 9.50 percent is assessed in the county, distributed as follows:

6.5 percent is collected by the state;

1.0 percent is a local option tax divided between cities and the county;[12]

0.9 percent is collected to support Metro Transit;[13]

0.9 percent is collected by the Regional Transit Authority (Sound Transit);[14]

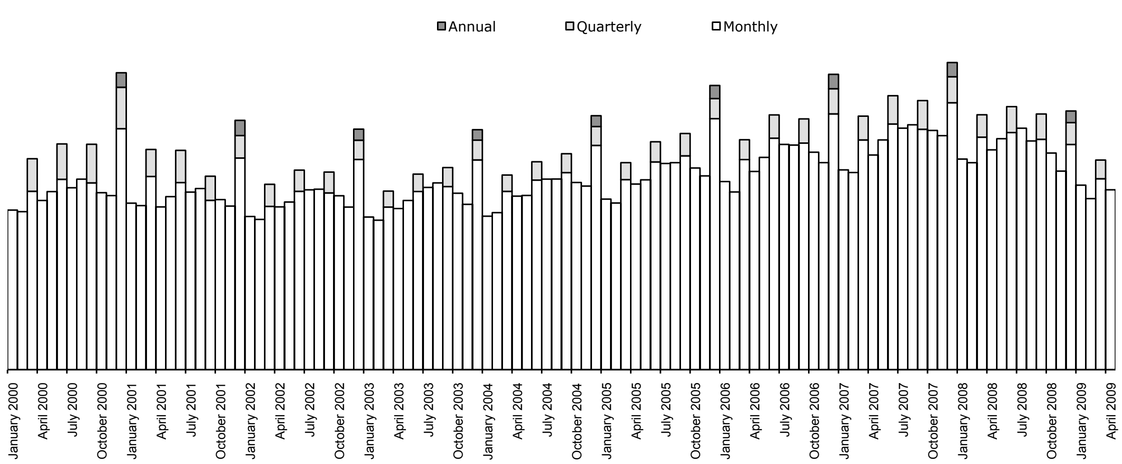
0.1 percent is collected to support criminal justice programs;[15] and

0.1 percent is collected to support mental health & chemical dependency programs.[16]

In addition to the basic 9.5 percent sales tax rate, an additional 0.5 percent tax is imposed on food and beverage sold in restaurants, bars and taverns. Proceeds from this tax are dedicated to funding debt service on county bonds sold to finance the construction costs of Safeco Field.

The sales tax is strongly influenced by changes in the economy and by the geographic areas from which it is collected. The county's public transportation and criminal justice programs receive revenues from

Sales Tax Collections by Reporting Frequency
Local Option Revenue from Total King County Taxable Retail Sales, 2000-present



12 Within cities, 15 percent of revenue is distributed to the county, and 85 percent to the city. King County receives the full 1.00 percent tax collected in unincorporated areas.

13 This tax was approved in April 2001 to replace funds lost with the repeal of the Motor Vehicle Excise Tax by Initiative 695 in November 1999. In November 2006, voters authorized an increase from 0.80 percent to 0.90 percent, effective April 1, 2007.

14 This tax is not collected in the rural part of King County where the sales tax rate is 8.60 percent. This tax was increased to 0.9% effective April 1, 2009.

15 90 percent of these funds are allocated to the cities and the county on the basis of population. King County receives to the remaining 10 percent. This tax was approved by county voters in 1992.

16 This tax was approved by the Metropolitan King County Council and implemented April 1, 2008.

Sales Tax Forecast Detail

	2004 Actuals	2005 Actuals	2006 Actuals	2007 Actuals	2008 Actuals	2009 Estimated	2010 Proposed
General Local Option							
Unrestricted General Fund	65,636,330	70,525,713	75,010,341	83,089,112	83,639,146	75,158,000	75,458,000
Children and Family	3,339,902	3,588,698	3,816,898	4,227,986	4,032,915	3,624,000	3,638,000
Sales Tax Reserve	3,630,328	3,900,758	4,148,802	4,595,637	-	-	-
Total	68,653,007	78,015,169	82,976,041	91,912,735	87,672,061	78,782,000	79,096,000
Criminal Justice							
Total	11,026,405	12,054,054	12,988,932	14,229,175	12,973,191	11,266,000	11,012,000
Mental Health							
Total					35,564,904	42,033,000	43,210,000
Public Transportation							
Total	314,192,142	341,229,548	367,263,689	442,042,300	432,934,213	386,134,000	392,814,000

countywide retail sales, with unincorporated areas constituting a little under four percent of the tax base. In contrast, over 20 percent of King County's General Fund sales tax revenue is collected in unincorporated areas. Differences in the geographical composition of taxable retail sales also complicate analysis of revenue over the course of the business cycle. For example, the relative dominance of the construction sector in unincorporated King County makes the unincorporated local option tax more sensitive to economic conditions than countywide taxes for transit and criminal justice.

Sales taxes place a disproportionate burden on lower income households. Over time, the inability to tax internet transactions and a general lag behind personal income growth will also prevent King County sales tax receipts from keeping pace with the cost of delivering most government services.

Purchases by King County residents from firms that do not operate in Washington are typically not subject to sales taxes. The rapid expansion of internet driven electronic commerce and Washington's high sales tax rates have provided a substantial incentive for consumer purchases over the internet to realize significant tax savings. A study published by researchers at the University of Tennessee attempted to quantify the impact of internet and catalog sales on state and local sales taxes. The study concluded that nearly $200 million in state and local sales tax revenue was lost in Washington in 2008 due to remote purchases, forecasted to increase to $280 million in 2012.

Washington State has entered into the national Streamlined Sales Tax agreement and began implementation in July 2008. Previously, the sales tax rate was based on the jurisdiction from which a product is shipped, with that jurisdiction receiving its local option sales tax. Under sales tax streamlining, the destination of the product determines the jurisdiction that receives the local portion of the sales tax. To date, the Department of Revenue has distributed three quarterly payments to local jurisdictions covering business activity between July 2008 and March 2009. King County received nearly $6.7 million in mitigation payments compensating for lost revenue resulting from streamline sourcing for all of the county's sales tax streams. Of this, over $5.3 million is dedicated to Transit. These payments will generally decline over time until they are eliminated.

Estimated 2009 sales tax revenue to the General Fund, excluding designated revenue, is $75.2 million, a 10.1 percent decrease from 2008 levels[17]. This decrease reflects impacts from three major annexations effective

17 During the 2008 budget process, a portion of the local option sales tax which had previously been designated to the Sales Tax Contingency (STC) subfund, was undesignated beginning in 2008. The remainder of the local option tax (0.054%) is dedicated to the Children and Family Services Fund.

in 2008 and an economy reeling from recent financial turmoil. Including designated amounts, 2008 General Fund sales tax revenue totals $97.6 million.

Total projected 2010 General Fund sales tax revenue is $86.5 million, an increase of 0.1 percent from estimated 2009 receipts. Of this, $11.0 million is dedicated to criminal justice expenses. The remaining $75.5 million is dedicated to the General Fund for general use. Additionally, $3.6 million of the local option sales tax will be deposited in the Children and Family Services Fund. The annexation of the southern portion of the North Highline Potential Annexation Area is factored into these estimates. The General Fund includes the inmate welfare subfund. The sales tax contingency and children and family services subfunds are now segregated from the General Fund into separate tier 1 funds, the Rainy Day Reserve Fund and the Children and Family Services Fund respectively.

REAL ESTATE EXCISE TAX

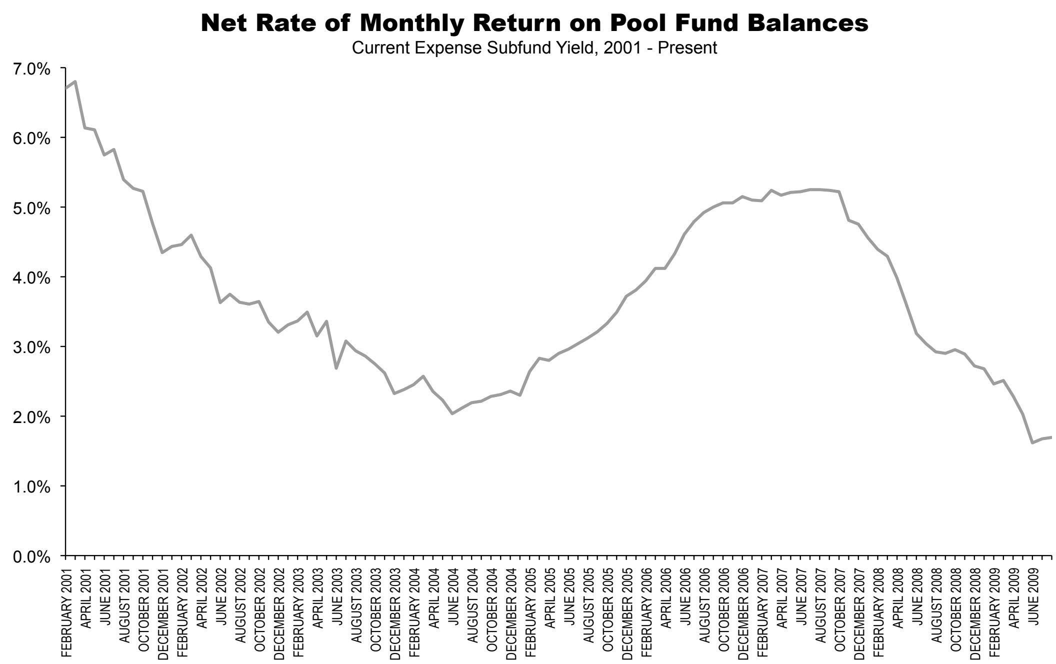
King County levies the Real Estate Excise Tax (REET) in unincorporated King County and administers state and city REET taxes throughout the county. Reflecting unprecedented low interest rates and a high degree of real estate speculation, real estate sales were unsustainably high between 2005 and 2007. Recent collections have dramatically fallen, even beyond the drops that were forecast, as the housing market and credit facilities collapsed.

Year-to-date 2009 collections are only 40.6 percent of 2008 levels through July. Reflecting the a seizing up of construction activity and tightening of mortgage credit standards, this downward trend is expected to level out and begin to shows signs of a slow recovery later this year, with 2009 revenue totaling 35.9 percent less than 2008 revenue. A modest growth of 6.1 percent is forecast for 2010.

REET consists of two 0.25 percent taxes on real estate transactions. Each is forecasted at just over $3.3 million in 2010. This compares with over $11 million each in 2005 and 2006.

INTEREST EARNINGS

Because of high volatility, attributable to downward trends in both interest rates and county fund balances, the Office of Management and Budget continues to provide a conservative interest earnings forecast. Historic low returns on federal agency and treasury notes weaken investment pool earnings rates. For 2010, a rate of return of 1.35 percent is assumed, the lowest return on record, dating back to 1983.



Summary of 2010 Proposed General Fund Financial Plan

(in millions)

	2008 Actuals [a]	2009 Adopted	2009 Estimated	2010 Proposed	2011 Projected	2012 Projected
BEGINNING FUND BALANCE	**140.6**	**69.2**	**97.2**	**57.9**	**59.6**	**71.9**
REVENUES [b]						
Property Tax	274.9	282.2	282.4	289.5	294.1	299.7
Debt Service [c] [d]	(19.9)	(21.8)	(21.8)	(22.8)	(27.2)	(28.0)
Sales Tax	79.3	80.4	75.2	75.5	77.0	80.1
CJ Revenues [e]	19.9	18.1	17.2	16.2	16.6	17.2
Interest Earnings	12.1	8.3	4.9	2.7	3.1	4.1
Flood BAN Revenue [f]	0.0	0.0	27.2	0.0	0.0	0.0
Other Revenues	266.7	273.7	269.5	261.6	274.0	274.1
General Fund Revenues	**632.9**	**640.9**	**654.6**	**622.6**	**637.6**	**647.1**
EXPENDITURES						
Operating Expenditures [g][m][n]	(630.1)	(612.3)	(673.5)	(602.3)	(647.4)	(691.9)
CJ Expenditures [e][m]	(18.4)	(19.8)	(19.8)	(18.2)	(18.9)	(19.6)
CIP Expenditures [h][i][m]	(12.8)	(6.9)	(6.9)	(8.8)	(15.2)	(15.9)
OPD Supplemental [j]	0.0	(19.7)	0.0	0.0	0.0	0.0
Shut Down of Operations [k]	0.0	8.7	8.7	6.5	0.0	0.0
Operating Underexpenditures [l]	0.0	2.8	2.8	2.0	2.0	2.1
Reductions to Balance	0.0	0.0	0.0	0.0	54.2	88.2
General Fund Expenditures	**(661.3)**	**(647.2)**	**(688.7)**	**(620.9)**	**(625.3)**	**(637.0)**
Balance Transfer to Other Funds	(15.0)	0.0	(5.1)	0.0	0.0	0.0
Ending Fund Balance	**97.2**	**62.9**	**57.9**	**59.6**	**71.9**	**82.0**
RESERVES AND DESIGNATIONS						
Outyear Deficit Reduction Reserve [o]	(20.7)	0.0	(9.0)	0.0	0.0	0.0
UGA Parks for Future Annexation	(7.7)	(5.4)	(5.4)	0.0	0.0	0.0
Mitigation Reserve	0.0	(0.7)	(0.7)	0.0	0.0	0.0
Animal Control Transition [p]	0.0	0.0	0.0	(3.0)	(3.0)	(3.0)
Parks Partnership [q]	0.0	0.0	0.0	(0.5)	(0.5)	(0.5)
Alder Facility Transition [r]	0.0	0.0	0.0	(4.0)	(4.0)	(4.0)
Green River Flood Planning and Mitigation [s]	0.0	0.0	0.0	(1.0)	(1.0)	(1.0)
Retirement Contribution Stabilization [t]	0.0	0.0	0.0	(6.4)	(9.4)	(12.4)
Other Post Employment Benefits Reserves [u]	0.0	0.0	0.0	0.0	(4.0)	(6.0)
Other Reserves [v]	(27.4)	(24.2)	(11.3)	(13.8)	(18.4)	(23.0)
Reserves	**(55.8)**	**(30.3)**	**(26.4)**	**(28.7)**	**(40.2)**	**(49.9)**
6% Fund Balance Reserve	**41.4**	**32.6**	**31.5**	**30.9**	**31.7**	**32.1**
Over/Under 6% Minimum	**9.3**	**0.3**	**0.0**	**0.0**	**0.0**	**0.0**

2010 Proposed General Fund Financial Plan

Footnotes

(a) The 2008 Actual column reflects actual amounts as reported in the 2008 unaudited Comprehensive Annual Financial Report (CAFR).

(b) Revenue estimates for 2009 - 2012 are based on the following assumptions. The percentages indicate the expected annual percent change over the prior year, except for interest earnings, which is stated as the projected annual rate of return. The 2009 Sales Tax rate has been adjusted for the portion formerly dedicated to the Sales Tax Reserve.

	2008	2009	2010	2011	2012
Property Tax (net of debt service)	Actuals	2.21%	2.34%	0.10%	1.77%
Sales Tax	Actuals	-10.14%	0.40%	2.07%	3.94%
Interest Earnings	Actuals	1.70%	1.35%	1.60%	2.30%
All Other	Actuals	Individual Estimates	Individual Estimates	Individual Estimates	Individual Estimates

(c) The debt service schedule for 2008 - 2012 is based on the following table:
(in millions)

Debt Service Elements	2008	2009	2010	2011	2012
Existing Debt Issues	18.0	21.8	18.5	18.5	18.5
2010 Debt Issuance (IRIS/TESS, Other)			4.4	4.4	4.4
2011 Debt Reserves (Flood, Other)				4.3	4.3
2012 Debt Reserve					0.8
Total Debt Service	18.0	21.8	22.9	27.2	28.0

(d) Based on current projections, debt service expense will exceed the debt cap by $750 thousand in 2011 and $1.2 million in 2012. This could be resolved by either using one-time money to fund 2010 CIP projects or restructure the debt repayment schedules on new projects.

(e) In the 2005 Adopted Budget, the former Criminal Justice Fund was consolidated into the General Fund. Those revenues and expenditures are shown separately in this financial plan.

(f) Revenue associated with Bond Anticipation Notes expected to be issued in November/December 2009 as a temporary funding source to address the risks in the event of a Green River flood. A subsequent 10 year LTGO Bond is currently assumed to be issued in 2011 that will be used to retire the Bond Anticipation Notes with debt service payments beginning in 2011.

(g) 2009 Operating Expenditures

Adopted Budget	(627.9)
2008 Carryovers	(9.1)
Other Supplemental Activity	(27.3)
Flood Supplemental	(27.2)
Total	(691.5)

(h) 2009 CIP/Other Contributions

2008 CIP Carryovers/corrections	(5.3)
Major Maintenance	(3.0)
General Government CIP	(1.7)
OIRM CIP	(1.9)
Public Transportation	(0.3)
Total	(12.2)

(i) 2010 CIP/Other Contributions

Major Maintenance	(5.6)
General Government CIP	(0.4)
OIRM CIP	(2.3)
Public Transportation	(0.6)
Total	(8.8)

(j) Reflects OPD contracts for the second half of 2009. For the first half of 2009 and all other years OPD contracts are reflected in the "Operating Expenditures" line. This amount was appropriated in a supplemental budget ordinance in 2009, and not part of the initial 2009 Adopted Budget. It is included to aide cross-year comparisons.

(k) 2009 savings were achieved through the implementation of a ten-day building and/or operational closure program, resulting in labor furloughs. The 2010 budget is balanced assuming a similar level of savings will be achieved through operational shutdowns as was adopted for 2009.

2010 Proposed General Fund Financial Plan

Footnotes

(l) The General Fund Financial Plan assumes an underexpenditure rate of 2.0% of total expenditures. The 2010 Proposed Budget includes a 1.5% underexpenditure contra in General Fund operating budgets which are directly budgeted for within those departments. A remaining central contra of 0.5% is being held for those departments in the General Fund Financial Plan, for a total assumption of 2.0% underexpenditure. For General Fund transfer budgets, the full 2.0% underexpenditure is directly budgeted within those departments. A list of agencies exempt or partially exempt from the underexpenditure requirement is provided below:

Agencies exempt from 2.0% underexpenditure:	Agencies partially exempt:
Drug Enforcement Forfeits	Sheriff
Antiprofiteering	Prosecuting Attorney's Office
State Auditor	District Court
Executive Contingency	GF Transfers
Internal Support	Jail Health Services
Finance - GF	Dept. of Adult and Juvenile Detention
	Public Defense

(m) Expenditure estimates for 2011 - 2012 are based on the following assumptions. The percentages indicate the expected annual percentage change over the previous year. The assumed flex rate percentage increase reflects actuarial projections based on current plan design. The 22.8% increase in "All Others" is primarily due to restoring the General Fund CIP Transfer for Major Maintenance and Building Repair to fully funded levels.

	2010	2011	2012
Labor	As Proposed	7.8%	5.5%
Benefits	As Proposed	13.3%	13.2%
Services/Other Charges	As Proposed	5.2%	4.5%
All Others	As Proposed	22.8%	4.3%

(n) The 2009 Estimated numbers have been adjusted to reflect 2009 supplementals as noted in the 2nd Quarter Report plus any subsequent transmittals. In addition, the revised numbers include an amendment made to the Second Quarter Omnibus supplemental.

(o) In the Second Quarter Report the Outyear Deficit Reduction Reserve was $4.2 million. The incremenatal increase beyond that figure is a result an ammendment to the Second Quarter Omnibus supplemental, release of Salary and Wage reserves, and the release of the Truancy Reserve. The entire Outyear Deficit Reduction Reserve is released in 2010 in order to balance the 2010 budget.

(p) The Animal Control Transition Reserve is intended to help facilitate the transition of animal control services to a non-profit organization. King County is in discussions with groups that might be interested in assuming this function. Money may be needed to provide a facility and/or incur other costs to transition to a new business model and respond to the imminent risk of potential flooding from the Green River.

(q) The Executive is pursuing opportunities to transition unincorporated local parks to cities, non-profit groups, or other community organizations in order to keep these facilities open. The one-time money is set aside in order to assist with this transition.

(r) Money is set aside to provide mitigation for habitation issues facing the Juvenile Justice Facility. Such steps may include use of temporary facilities and interim work on the existing facility to enable continued use while long-term planning continues.

(s) King County faces an unknown challenge related to the potential for flooding in the Green River Valley. If a flooding event occurs, the county will experience increased costs and decreased revenue, as business activity in the area will be stopped or severely interrupted for an unknown duration. This money is intended to offset revenue declines associated with the a flood event. Alternatively, if the county determines in the future that a flood event is unlikely, this money is then intended to pay down the debt incurred in relation to flood planning and mitigation efforts.

(t) Largely as a result of severe investment losses in the state's retirement pool, retirement rates in 2012-2015 are anticipated to be much higher than previously thought. While savings occur from low rates in 2010 and 2011 due to state legislative changes to the retirement rate calculation methodology, this is only a temporary savings, followed by faster than anticipated climbs in retirement rates. As an example, PERS II employer contribution rates are anticipated to more than double between 2010 and 2013, climbing even higher in later years. The Washington State Office of the State Actuary reports retirement rates may increase over five and half times over the next five years under a pessimistic scenario. The County will face difficulty in meeting its obligations in the future if steps are not taken now.

2010 Proposed General Fund Financial Plan

Footnotes

(u) King County has other post-employment benefits (OPEB) liabilities related to healthcare costs for its early retirement program and employees in the Law Enforcement Officers and Fire Fighters I (LEOFF I) retirement program. King County, like most other government entities, has traditionally operated on a pay-as-you-go basis. This method does not capture future costs that will be incurred after the employee retires. Upon retirement, the county begins to pay actual OPEB costs, which may take place over several years and lowers the outstanding actuarial liability. For example, LEOFF-I retirees are eligible for county healthcare coverage for life. King County will continue to pay health care costs for these employees long after they retire. Liabilities related to early retirement would continue so long as the county offers this program.
At the end of 2008, the county had an OPEB unfunded actuarial accrued liability of $145.4 million. Of this, over $67 million (46%) is related to LEOFF-I retiree medical benefits that will be paid over time (all General Fund). Under GASB-45 rules, in 2007 and 2008 the annual required contributions were $11.8 million each year. The county, continuing to operate on a pay-as-you-go basis, paid only $5.1 million in 2007 and $3.2 million in 2008. As of the beginning of 2009, the county should have $15.1 million set aside to pay for future OPEB costs (approximately $10 million of this is General Fund). This amount will increase each year over the next several years. Starting in 2011, a reserve of $4.0 million growing over time has been established for this purpose.

(v) Other Reserves include the following for each of the years (in millions):

	2008 Actuals	2009 Adopted	2009 Revised	2010 Proposed	2011 Projected	2012 Projected
Loans	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)	(3.8)
Animal Control	(0.1)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Crime Victim Compensation Progran	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Drug Enforcement Program	(1.6)	(0.2)	(1.6)	(1.6)	(1.6)	(1.6)
Anti-Profiteering Program	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Dispute Resolution	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Sheriff Laptop Replacement	-	(0.3)	-	-	-	-
Real Property Title Insurance	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Inmate Welfare Fund Balance	(1.3)	(1.0)	(1.8)	(1.8)	(1.8)	(1.8)
Ex-CJ Fund Balance	(1.8)	-	(1.8)	-	-	-
Salary & Wage	(2.5)	(17.1)	(0.4)	(4.7)	(9.2)	(13.8)
CIP Capital Supplemental Reser	-	(1.5)	(1.5)	(1.5)	(1.5)	(1.5)
2008 Carryovers/Sub fund balar	(15.9)	-	-	-	-	-
Total "Other" Reserves	(27.4)	(24.2)	(11.3)	(13.8)	(18.4)	(23.0)